

CITY OF EDDYVILLE
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2012

Peak & Co., LLP
Certified Public Accountants
1370 NW 114th St., Suite 205
Clive, IA 50325

Table of Contents

	<u>Page</u>
Officials	3
Independent Auditor's Report	5-6
Basic Financial Statements:	<u>Exhibit</u>
Government-wide Financial Statement:	
Statement of Activities and Net Assets - Cash Basis	A 8
Governmental Fund Financial Statement:	
Statement of Cash Receipts, Disbursements and	
Changes in Cash Balances	B 9
Proprietary Fund Financial Statement:	
Statement of Cash Receipts, Disbursements and	
Changes in Cash Balances	C 10
Notes to Financial Statements	11-17
Other Information:	
Budgetary Comparison Schedule of Receipts, Disbursements and	
Changes in Balances - Budget and Actual (Cash Basis) - All Governmental	
Funds and Proprietary Funds	19
Notes to Other Information - Budgetary Reporting	20
Supplementary Information:	<u>Schedule</u>
Schedule of Cash Receipts, Disbursements and Changes in	
Cash Balances - Nonmajor Governmental Funds	1 22
Schedule of Indebtedness	2 23
Bond and Note Maturities	3 24
Schedule of Receipts by Source and Disbursements by Function -	
All Governmental Funds	4 25
Schedule of Expenditures of Federal Awards	5 26
Independent Auditor's Report on Internal Control over Financial Reporting	
and on Compliance and Other Matters Based on an Audit of Financial	
Statements Performed in Accordance with <u>Government Auditing Standards</u>	27-28
Independent Auditor's Report on Compliance with Requirements That Could	
Have a Direct and Material Effect on Each Major Program and on Internal	
Control over Compliance in Accordance with OMB Circular A-133	29-30
Schedule of Findings and Questioned Costs	31-42

City of Eddyville

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January, 2012)		
John Johnston	Mayor	January 1, 2012
Doug Greenlee	Council Member	January 1, 2014
John Simmers	Council Member	January 1, 2014
Jim Durst	Council Member	January 1, 2012
Wendell Terell	Council Member	January 1, 2014
Dwight Lobberecht	Council Member	January 1, 2012
Mickey A. Solano	Clerk/Treasurer	January 1, 2012
Greg A. Life	Attorney	January 1, 2012

(After January, 2012)

John Johnston	Mayor	January 1, 2014
Doug Greenlee	Council Member	January 1, 2014
John Simmers	Council Member	January 1, 2014
Jim Durst	Council Member	January 1, 2016
Wendell Terell	Council Member	January 1, 2014
Dwight Lobberecht	Council Member	January 1, 2016
Mickey A. Solano	Clerk/Treasurer	January 1, 2014
Greg A. Life	Attorney	January 1, 2014

Library Board

Kim Brown	Library Trustee	June 30, 2015
Ruby Johnson	Library Trustee	June 30, 2015
Larry Leatherman	Library Trustee	June 30, 2015
Paulette Groet	Library Trustee	June 30, 2012
Marla Wood	Library Trustee	June 30, 2014
Jim Sutton	Library Trustee	June 30, 2014
David Glass	Library Trustee	June 30, 2014

City of Eddyville

PEAK & CO., LLP
CERTIFIED PUBLIC ACCOUNTANTS
1370 NW 114TH ST., SUITE 205
CLIVE, IA 50325

(515) 277-3077

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Eddyville, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents. These financial statements are the responsibility of the City of Eddyville's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

The financial statements referred to above include only the primary government of the City of Eddyville, which consists of all funds, organizations, institutions, agencies, departments and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component unit, which U.S. generally accepted accounting principles require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the cash basis financial position of the reporting entity of the City of Eddyville as of June 30, 2012, and the changes in its cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information for the primary government of the City of Eddyville as of June 30, 2012, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated March 1, 2013 on our consideration of the City of Eddyville's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Eddyville's primary government financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the primary government financial statements for the year ended June 30, 2011 (which are not presented herein) and expressed qualified opinions on those financial statements, because we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at June 30, 2010, which were prepared in conformity with an other comprehensive basis of accounting. The supplementary information included in Schedules 1 through 5, including the Schedule of Federal Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statement themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Eddyville's primary government financial statements. The budgetary comparison information on pages 19 through 20 are presented for purposes of additional analysis and are not a required part of the primary government financial statements. The information has not been subjected to the auditing procedures applied in our audit of the primary government financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

The City of Eddyville has not presented a Management's Discussion and Analysis which introduces the primary government financial statements by presenting certain financial information as well as management's analytical insights on that information that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the primary government financial statements.

Peak & Co., LLP

Peak & Co., LLP
Certified Public Accountants

March 1, 2013

Basic Financial Statements

City of Eddyville

Exhibit A

Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2012

	Disbursements	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions / Programs							
Governmental activities:							
Public safety	\$ 76,408	333	-	-	(76,075)	-	(76,075)
Public works	3,849,458	48,614	120,868	2,982,611	(697,365)	-	(697,365)
Culture and recreation	75,290	20,559	1,173	25,892	(27,666)	-	(27,666)
Community and economic development	5,240	-	-	-	(5,240)	-	(5,240)
General government	85,946	1,304	-	-	(84,642)	-	(84,642)
Debt service	98,309	-	-	-	(98,309)	-	(98,309)
Total governmental activities	4,190,651	70,810	122,041	3,008,503	(989,297)	-	(989,297)
Business type activities:							
Sewer	75,771	123,903	-	-	-	48,132	48,132
Solid waste	57,707	53,071	-	-	-	(4,636)	(4,636)
Total business type activities	133,478	176,974	-	-	-	43,496	43,496
Total	\$ 4,324,129	247,784	122,041	3,008,503	(989,297)	43,496	(945,801)
General Receipts and Transfers:							
Property tax and other city tax levied for:							
General purposes					228,283	-	228,283
Debt service					102,895	-	102,895
Local option sales tax					104,843	-	104,843
Grants and contributions not restricted to specific purposes					2,057	-	2,057
Unrestricted interest on investments					1,669	2,677	4,346
Line of credit loan proceeds					2,088,909	-	2,088,909
Line of credit loan payment					(2,088,909)	-	(2,088,909)
Miscellaneous					17,820	2,148	19,968
Sale of assets					2,571	-	2,571
Transfers					43,304	(43,304)	-
Total general receipts and transfers					503,442	(38,479)	464,963
Change in cash basis net assets					(485,855)	5,017	(480,838)
Cash basis net assets beginning of year					1,652,798	355,014	2,007,812
Cash basis net assets end of year					\$ 1,166,943	360,031	1,526,974
Cash Basis Net Assets							
Restricted:							
Nonexpendable:							
Cemetery perpetual care					\$ 50,724	-	50,724
Expendable:							
Debt service					11,813	-	11,813
Park					15,621	-	15,621
Other purposes					460,960	-	460,960
Unrestricted					627,825	360,031	987,856
Total cash basis net assets					\$ 1,166,943	360,031	1,526,974

See notes to financial statements.

City of Eddyville

Exhibit B

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2012

		Special Revenue	Capital Projects		
	General	Local Option Sales Tax	Library	Nonmajor	Total
Receipts:					
Property tax	\$ 160,230	-	-	146,245	306,475
Other city tax	14,886	104,843	-	11,880	131,609
Licenses and permits	1,304	-	-	-	1,304
Use of money and property	2,019	-	2,412	-	4,431
Intergovernmental	3,014,529	-	-	97,128	3,111,657
Charges for service	5,350	-	-	-	5,350
Miscellaneous	84,411	-	-	13,684	98,095
Total receipts	3,282,729	104,843	2,412	268,937	3,658,921
Disbursements:					
Operating:					
Public safety	53,632	7,392	-	15,384	76,408
Public works	3,491,521	16,317	-	341,620	3,849,458
Culture and recreation	75,290	-	-	-	75,290
Community and economic development	5,240	-	-	-	5,240
General government	70,880	-	-	15,066	85,946
Debt service	-	-	-	98,309	98,309
Total disbursements	3,696,563	23,709	-	470,379	4,190,651
Excess (deficiency) of receipts over (under) disbursements	(413,834)	81,134	2,412	(201,442)	(531,730)
Other financing sources (uses):					
Sale of capital assets	2,571	-	-	-	2,571
Line of credit loan proceeds	2,088,909	-	-	-	2,088,909
Line of credit loan payment	(2,088,909)	-	-	-	(2,088,909)
Operating transfers in	56,018	-	-	-	56,018
Operating transfers out	-	(8,322)	(4,392)	-	(12,714)
Total other financing sources (uses)	58,589	(8,322)	(4,392)	-	45,875
Net change in cash balances	(355,245)	72,812	(1,980)	(201,442)	(485,855)
Cash balances beginning of year	830,919	267,387	169,752	384,740	1,652,798
Cash balances end of year	\$ 475,674	340,199	167,772	183,298	1,166,943
Cash Basis Fund Balances					
Nonspendable - Cemetery perpetual care	\$ -	-	-	50,724	50,724
Restricted for:					
Debt service	-	-	-	11,813	11,813
Park	15,621	-	-	-	15,621
Other purposes	-	340,199	-	120,761	460,960
Assigned for library	5,142	-	167,772	-	172,914
Unassigned	454,911	-	-	-	454,911
Total cash basis fund balances	\$ 475,674	340,199	167,772	183,298	1,166,943

See notes to financial statements.

City of Eddyville

Exhibit C

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2012

	Enterprise Funds		
	Other		
	Non-Major		
	Fund		
	Sewer	Solid Waste	Total
Operating receipts:			
Charges for service	\$ 123,903	53,071	176,974
Total operating receipts	123,903	53,071	176,974
Operating disbursements:			
Business type activities	75,771	57,707	133,478
Total operating disbursements	75,771	57,707	133,478
Excess (deficiency) of operating receipts over (under) operating disbursements	48,132	(4,636)	43,496
Non-operating receipts (disbursements):			
Interest on investments	2,677	-	2,677
Miscellaneous	2,148	-	2,148
Net non-operating receipts (disbursements)	4,825	-	4,825
Excess (deficiency) of receipts over (under) disbursements	52,957	(4,636)	48,321
Other financing sources (uses):			
Operating transfers out	(43,304)	-	(43,304)
Total other financing sources (uses)	(43,304)	-	(43,304)
Net change in cash balances	9,653	(4,636)	5,017
Cash balances beginning of year	348,888	6,126	355,014
Cash balances end of year	\$ 358,541	1,490	360,031
Cash Basis Fund Balances			
Unrestricted	\$ 358,541	1,490	360,031
Total cash basis fund balances	\$ 358,541	1,490	360,031

See notes to financial statements.

City of Eddyville

Notes to Financial Statements

June 30, 2012

(1) Summary of Significant Accounting Policies

The City of Eddyville is a political subdivision of the State of Iowa located in Monroe, Mahaska and Wapello Counties. It operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides sewer utilities and solid waste services for its citizens.

A. Reporting Entity

Except as discussed below, for financial reporting purposes, the City of Eddyville has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

These financial statements present the City of Eddyville (the primary government) and exclude the City's component unit. The component unit discussed below is not included in the City's reporting entity although its operational or financial relationship with the City is significant.

Excluded Component Unit

The Eddyville Municipal Waterworks was established under Chapter 388 of the Code of Iowa, is legally separate from the City, but has the potential to provide specific benefits to or impose specific burdens on the City. The Municipal Waterworks is governed by a three-member board appointed by the Mayor and approved by the City Council. The Waterworks' operating budget is subject to the approval of the City Council. Complete financial statements of the component unit, can be obtained from the Municipal Waterworks administrative office.

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the boards of the Wapello County Assessor's Conference Board, Area 15 Regional Planning Commission and the Eddyville Development Corporation.

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in the following categories/components:

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Fund.

Expendable restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Local Option Sales Tax Fund is used to account for the local option sales tax collections to be used for the related costs allowed to be paid for from these funds.

The Capital Projects, Library Fund accounts for assigned receipts and donations received by this fund to be used for costs associated with Library capital projects.

The City reports the following major proprietary fund:

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City of Eddyville maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U. S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restricted classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the Council intends to use for specific purposes.

Unassigned – All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information.

(2) **Cash and Pooled Investments**

The City's deposits in banks at June 30, 2012 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. However, at times during the year ended June 30, 2012, the City's deposit in banks were not entirely covered by the federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City Library has invested in annuities through RiverSource Life Insurance Company. These annuities are fixed income annuities, payable over 15 years, guaranteed by RiverSource Life Insurance Company. However, this guarantee is only as good as the financial viability of RiverSource Life Insurance Company. There are no fair market values of these annuities as of June 30, 2012, since these annuities are unable to be cashed out as of June 30, 2012. It does not appear that investments in annuities are allowable according to Chapters 12B and 12C of the Code of Iowa. However, the donor required that annuities were to be purchased with the funds received by the City from the donor.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

(3) Notes Payable

Annual debt service requirements to maturity for general obligation notes are as follows:

Year Ended June 30,	General Obligation Notes	
	Principal	Interest
2013	\$ 60,000	14,988
2014	65,000	12,498
2015	65,000	9,801
2016	65,000	7,104
2017	65,000	4,406
2018	41,177	1,708
	<u>\$ 361,177</u>	<u>50,505</u>

Grant Anticipation Loan Agreement Project Note

The City borrowed \$2,088,909 from this note in fiscal year 2012. This money was borrowed in order to pay construction contractors, along with the engineer and the grant administrator. Once grant monies were received from the State of Iowa, the outstanding balance on this note was repaid. Total funds repaid on this note were \$2,088,909 in fiscal year 2012. The balance on this note was \$0 at June 30, 2012. This note matures on July 1, 2012. The maximum loan balance on this note is \$850,000. The City can borrow from, and make payments on this note as many times as needed in order to meet cash flow requirements.

(4) Operating Lease Agreement

The City Library entered into a lease on July 14, 2009 to lease a copy machine for \$58 per month. The lease has been classified as an operating lease and, accordingly, all rents are charged to expense as incurred. This lease expires on June 14, 2014.

The following is a schedule of future payments required under the operating lease which has an initial or remaining non-cancelable lease term in excess of one year as of June 30, 2012:

Year Ended June 30,	Amount	
2013	\$	696
2014		696
	<u>\$</u>	<u>1,392</u>

Total rent expense during the fiscal year on this agreement was \$696.

(5) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 5.38% of their annual covered salary and the City is required to contribute 8.07% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2012 and 2011 were \$13,784 and \$11,372, respectively, equal to the required contributions for each year.

(6) Other Postemployment Benefits (OPEB)

Plan Description – The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees and retirees and their spouses. There are 4 active and no retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you go basis. The most recent active member monthly premiums for the City and plan members are \$580 for single coverage and \$1,456 for family coverage for the City employees and \$435 for single coverage for the Library employee. The same monthly premiums apply to retirees. For the year ended June 30, 2012, the City contributed \$45,077 and plan members eligible for benefits contributed \$2,110 to the plan.

(7) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation, overtime and personal leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation, overtime and personal leave termination payments payable to employees at June 30, 2012, primarily relating to the General Fund, was \$11,046.

This liability has been computed based on rates of pay in effect at June 30, 2012.

(8) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2012 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Local Option Sales Tax	\$ 8,322
	Capital Projects:	
	Library	4,392
	Enterprise:	
	Sewer	43,304
	Total	<u>\$ 56,018</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(9) Related Party Transactions

The City had business transactions between the City and City officials, totaling \$846,469 during the year ended June 30, 2012.

(10) Risk Management

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 663 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 150% of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2012 were \$5,664.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$12,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by The Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2012, settled claims have not exceeded the risk pool or reinsurance company coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100% of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with workers compensation in the amount of \$1,000,000 for each accident, \$1,000,000 memorandum limit, and \$1,000,000 each employee. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(11) Contingency

The City participates in a number of Federal and State grant programs. These programs are subject to program compliance audits by the grantors or their representatives. Entitlement to these resources is generally conditional upon compliance with the terms and conditions of grant and loan agreements and applicable federal and state regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a federal or state audit may become a liability to the City. The City's management believes such revisions or disallowances, if any, will not be material to the City.

(12) Commitments

As of June 30, 2012, the City has approximately \$71,000 in uncompleted construction projects outstanding. These projects will be paid for from reimbursement from the Community Development Block Grant program. It is anticipated these uncompleted construction projects will be completed in fiscal year 2013.

The City has a law enforcement contract with Mahaska and Wapello Counties, with a total cost of approximately \$55,000 per year. These contracts are renewed on a year to year basis, with a 30 day cancellation notice.

The City has a lease with a local farmer for farmland rental. This is a three year lease, and the City's compensation will consist of 50% of the hay crop. During the fiscal year ended June 30, 2012, the City has not received any hay in relation to this lease.

The City has a five year agreement, for \$2,845 per year, for a maintenance agreement on the City's generator.

(13) Subsequent Events

The City has evaluated subsequent events through March 1, 2013, which is the date that the financial statements were available to be issued.

Beginning July 1, 2012, the City will pay \$4,012 per month to Midwest Sanitation for residential garbage services. This is a three year agreement.

The City is due approximately \$43,000 from the State of Iowa disaster assistance program. It is anticipated that this money will be received in fiscal year 2013.

The City extended the \$850,000 grant anticipation loan agreement project note through July 1, 2013. This note was originally set to mature on July 1, 2012, but the City extended the maturity of this note through July 1, 2013. This note is discussed in note (3) above.

Other Information

City of Eddyville

Budgetary Comparison Schedule
of Receipts, Disbursements, and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds

Other Information

Year ended June 30, 2012

	Governmental Funds Actual	Proprietary Funds Actual	Total	Budgeted Amounts		Final to Total Variance
				Original	Final	
Receipts:						
Property tax	\$ 306,475	-	306,475	300,033	300,033	6,442
Other city tax	131,609	-	131,609	117,604	117,604	14,005
Licenses and permits	1,304	-	1,304	1,725	1,725	(421)
Use of money and property	4,431	2,677	7,108	7,213	7,213	(105)
Intergovernmental	3,111,657	-	3,111,657	3,448,750	4,512,599	(1,400,942)
Charges for service	5,350	176,974	182,324	186,470	195,250	(12,926)
Miscellaneous	98,095	2,148	100,243	84,650	84,650	15,593
Total receipts	3,658,921	181,799	3,840,720	4,146,445	5,219,074	(1,378,354)
Disbursements:						
Public safety	76,408	-	76,408	77,525	78,000	1,592
Public works	3,849,458	-	3,849,458	3,598,390	4,651,764	802,306
Culture and recreation	75,290	-	75,290	86,350	86,350	11,060
Community and economic development	5,240	-	5,240	7,000	7,000	1,760
General government	85,946	-	85,946	94,145	94,145	8,199
Debt service	98,309	-	98,309	101,165	951,165	852,856
Business type activities	-	133,478	133,478	181,870	200,650	67,172
Total disbursements	4,190,651	133,478	4,324,129	4,146,445	6,069,074	1,744,945
Excess (deficiency) of receipts over (under) disbursements	(531,730)	48,321	(483,409)	-	(850,000)	366,591
Other financing sources (uses), net	45,875	(43,304)	2,571	-	850,000	(847,429)
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(485,855)	5,017	(480,838)	-	-	(480,838)
Balances beginning of year	1,652,798	355,014	2,007,812	1,588,088	1,588,088	419,724
Balances end of year	\$ 1,166,943	360,031	1,526,974	1,588,088	1,588,088	(61,114)

See accompanying independent auditor's report.

City of Eddyville

Notes to Other Information-Budgetary Reporting

June 30, 2012

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except the Internal Service Fund. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Funds and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, there one budget amendment increased budgeted disbursements by \$1,922,629. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2012, disbursements did not exceed the amounts budgeted.

Supplementary Information

City of Eddyville

Schedule I

Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2012

	Special Revenue			Permanent	
	Employee	Road	Debt	Cemetery	
	Benefits	Use	Service	Perpetual	Total
		Tax		Care	
Receipts:					
Property tax	\$ 51,091	-	95,154	-	146,245
Other city tax	4,139	-	7,741	-	11,880
Intergovernmental	-	97,128	-	-	97,128
Miscellaneous	-	10,396	-	3,288	13,684
Total receipts	55,230	107,524	102,895	3,288	268,937
Disbursements:					
Operating:					
Public safety	15,384	-	-	-	15,384
Public works	24,434	317,186	-	-	341,620
General government	15,066	-	-	-	15,066
Debt service	-	-	98,309	-	98,309
Total disbursements	54,884	317,186	98,309	-	470,379
Net change in cash balances	346	(209,662)	4,586	3,288	(201,442)
Cash balances beginning of year	6,896	323,181	7,227	47,436	384,740
Cash balances end of year	\$ 7,242	113,519	11,813	50,724	183,298
Cash Basis Fund Balances					
Nonspendable - Cemetery perpetual care	\$ -	-	-	50,724	50,724
Restricted for debt service	-	-	11,813	-	11,813
Restricted for other purposes	7,242	113,519	-	-	120,761
Total cash basis fund balances	\$ 7,242	113,519	11,813	50,724	183,298

See accompanying independent auditor's report.

City of Eddyville

Schedule 2

Schedule of Indebtedness

Year ended June 30, 2012

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Principal and Interest Due and Unpaid
General Obligation Notes: Street Improvement and Refunding Note	August 16, 2010	4.15%	\$ 510,000	441,177	-	80,000	361,177	18,309	-
Revenue Note: Grant Anticipation Loan Agreement Project Note	September 6, 2011	4.00%	\$ 850,000	-	2,088,909	2,088,909	-	-	-

See accompanying independent auditor's report.

City of Eddyville

Schedule 3

Bond and Note Maturities

June 30, 2012

Year Ending June 30,	General Obligation Notes	
	Street Improvement and	
	Refunding Note	
	Issued August 16, 2010	
	Interest	
	Rates	Amount
2013	4.15%	\$ 60,000
2014	4.15%	65,000
2015	4.15%	65,000
2016	4.15%	65,000
2017	4.15%	65,000
2018	4.15%	41,177
		<u>\$ 361,177</u>

See accompanying independent auditor's report.

City of Eddyville

Schedule 4

Schedule of Receipts by Source and Disbursements by Function -
All Governmental Funds

For the Last Two Years

	2012	2011
Receipts:		
Property tax	\$ 306,475	282,376
Other city tax	131,609	123,718
Licenses and permits	1,304	2,219
Use of money and property	4,431	5,401
Intergovernmental	3,111,657	1,180,099
Charges for service	5,350	5,750
Miscellaneous	98,095	56,743
Total	<u>\$ 3,658,921</u>	<u>1,656,306</u>
Disbursements:		
Operating:		
Public safety	\$ 76,408	367,248
Public works	3,849,458	256,168
Culture and recreation	75,290	84,522
Community and economic development	5,240	1,208
General government	85,946	81,501
Debt service	98,309	92,317
Capital projects	-	239,210
Total	<u>\$ 4,190,651</u>	<u>1,122,174</u>

See accompanying independent auditor's report.

City of Eddyville

Schedule 5

Schedule of Expenditures of Federal Awards

Year ended June 30, 2012

Grantor/Program	CFDA Number	Agency Pass-Through Number	Program Expenditures
Indirect:			
U.S. Department of Housing and Urban Development:			
Iowa Economic Development Authority:			
Community Development Block Grants/State's			
Program and Non-Entitlement Grants in Hawaii			
(\$12,965 provided to subrecipients)	14.228	08-DRHB-211	\$ 906
		08-DRI-285	2,985,385
			<u>2,986,291</u>
U.S. Department of Homeland Security:			
Iowa Department of Public Defense:			
Iowa Homeland Security and			
Emergency Management Division:			
Disaster Grants - Public Assistance			
(Presidentially Declared Disasters)	97.036	FEMA-1763-DRIA	245,076
		FEMA-1930-DRIA	150,418
			<u>395,494</u>
Total			<u>\$ 3,381,785</u>

Basis of Presentation - The Schedule of Expenditure of Federal Awards includes the federal grant activity of the City of Eddyville and is presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

PEAK & CO., LLP
CERTIFIED PUBLIC ACCOUNTANTS
1370 NW 114TH ST., SUITE 205
CLIVE, IA 50325

(515) 277-3077

Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying primary government financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Eddyville, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated March 1, 2013. Our report expressed unqualified opinions on the primary government financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of the City of Eddyville is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Eddyville's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Eddyville's internal control over financial reporting. Accordingly, we do not express our opinion on the effectiveness of the City of Eddyville's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and another deficiency we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of City of Eddyville's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-12 and II-B-12 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-C-12 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Eddyville's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Eddyville's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit City of Eddyville's responses and, accordingly, we do not express an opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Eddyville and other parties to whom the City of Eddyville may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Eddyville during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Peak & Co., LLP

Peak & Co., LLP
Certified Public Accountants

March 1, 2013

PEAK & CO., LLP
CERTIFIED PUBLIC ACCOUNTANTS
1370 NW 114TH ST., SUITE 205
CLIVE, IA 50325

(515) 277-3077

Independent Auditor's Report on Compliance with Requirements That Could
Have a Direct and Material Effect on Each Major Program and on Internal
Control over Compliance in Accordance with OMB Circular A-133

To the Honorable Mayor and
Members of the City Council:

Compliance

We have audited the City of Eddyville, Iowa's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on the City of Eddyville's major federal programs for the year ended June 30, 2012. The City of Eddyville's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal programs are the responsibility of the City of Eddyville's management. Our responsibility is to express an opinion on the City of Eddyville's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on major federal programs occurred. An audit includes examining, on a test basis, evidence about the City of Eddyville's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Eddyville's compliance with those requirements.

In our opinion, the City of Eddyville complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

The management of the City of Eddyville is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City of Eddyville's internal control over compliance with requirements that could have a direct and material effect on the major federal programs in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Eddyville's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance we consider to be a material weakness and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-12 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program which is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in part III of the accompanying Schedule of Findings and Questioned Costs as items III-B-12, III-C-12, III-D-12, III-E-12, III-F-12, III-G-12 and III-H-12 to be significant deficiencies.

City of Eddyville's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City of Eddyville's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Eddyville and other parties to whom the City of Eddyville may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Peak & Co., LLP

Peak & Co., LLP
Certified Public Accountants

March 1, 2013

City of Eddyville
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

Part I: Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) A significant deficiency and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A material weakness and seven significant deficiencies in internal control over the major programs were disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major programs.
- (f) The audit disclosed audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major programs were as follows:
 - CFDA Number 14.228 – Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii.
 - CFDA Number 97.036 – Disaster Grants – Public Assistance (Presidentially Declared Disasters).
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Eddyville did not qualify as a low-risk auditee.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2012

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-12 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Although one full-time individual and one part-time individual are involved in the accounting duties of the City, there is insufficient segregation of duties to prevent one individual from having control over each of the following areas for the City:

- 1) Cash – reconciling bank accounts, initiating cash receipts and handling and recording cash.
- 2) Investments – detailed record keeping, custody and reconciling.
- 3) Long-term debt – recording and reconciling.
- 4) Receipts – collecting, depositing, posting and reconciling.
- 5) Accounting system – performing all general accounting functions and having custody of City assets.
- 6) Disbursements – preparing checks, signing checks and access to the accounting records.
- 7) Petty cash – custody, reconciling and recording.
- 8) Payroll – recordkeeping, preparation and distribution.

Recommendation – We realize with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Evidence of review of reconciliations should be indicated by initials of the independent reviewer and date of the review.

Response and Corrective Action Planned – The City will review its control procedures to obtain the maximum internal control possible with the limited staff it has.

Conclusion – Response acknowledged.

II-B-12 Library – There is no consistent immediate record of receipts. While the Library did attempt to implement this recommendation in fiscal year 2012, for the month tested, material variances existed between the amount of receipts recorded on the receipt register and the amount of monies deposited to the bank. To provide increased accountability over receipts, an immediate record of receipt of monies should be maintained.

In addition, an accounting ledger is not maintained for the Capital Projects, Library Fund.

Recommendation - An initial record of receipt should be documented for all monies collected by the Library. In addition, an accounting ledger needs to be maintained for the Capital Projects, Library Fund.

Response - For the month in question, the amount of funds deposited the bank exceeded the amount of receipts recorded on the receipt register. Obviously, not all the receipts collected were recorded on the receipt register. In the future, greater care will be taken, and we will implement these recommendations.

Conclusion - Response accepted.

City of Eddyville

Schedule of Findings and Questioned Costs

Year Ended June 30, 2012

II-C-12 Financial Reporting - We noted that while management is capable of preparing accurate financial statements that provide information sufficient for City Council members to make management decisions, reporting financial data reliably in accordance with an other comprehensive basis of accounting (OCBOA) requires management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including footnote disclosures. Due to the technical nature of these requirements, management does not prepare this information, which is a common situation in all small entities.

Recommendation - Obtaining additional knowledge through reading relevant accounting literature and attending local professional education courses should help management significantly improve in the ability to prepare OCBOA financial statements.

Response - This issue relates to auditor independence issues, and we accept the risk associated with not being able to prepare these documents and apply accounting principles in accordance with the OCBOA requirements.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Eddyville

Schedule of Findings and Questioned Costs

Year Ended June 30, 2012

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

CFDA Number 14.228: Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii

Pass-through Agency Number: 08-DRHB-211 and 08-DRI-285

Federal Award Year: 2008

U.S. Department of Housing and Urban Development

Passed through the Iowa Economic Development Authority

CFDA Number 97.036: Disaster Grants – Public Assistance (Presidentially Declared Disasters)

Pass-through Agency Number: FEMA-1763-DRIA and FEMA-1930-DRIA

Federal Award Year: 2008 and 2010

U.S. Department of Homeland Security

Passed through the Iowa Department of Public Defense – Iowa Homeland Security and Emergency Management Division

III-A-12 Segregation of Duties – The City did not properly segregate duties involving cash, receipts, and disbursements. See item II-A-12.

III-B-12 Electronic Check Retention – The City did not consistently retain an image of the front and back of each cancelled check, as required by the Code of Iowa. See item IV-K-12.

CFDA Number 14.228: Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii

Pass-through Agency Number: 08-DRHB-211 and 08-DRI-285

Federal Award Year: 2008

U.S. Department of Housing and Urban Development

Passed through the Iowa Economic Development Authority

III-C-12 Subrecipient Monitoring – For the Community Development Block Grant (CDBG) program, the City entered into an agreement with a Regional Planning Commission (administrative entity) to administer the program. When the City enters into such agreements, the City effectively passes down all federal requirements of the program to the administrative entity, except for approving final reports and requesting funds. The agreement does not identify the administrative entity as a subrecipient when, in fact, the administrative entity becomes a subrecipient and must comply with CDBG program and OMB Circular A-133 requirements upon entering into the agreement. In addition, upon entering into the agreement, the City is responsible for monitoring the administrative entity for compliance with CDBG and OMB Circular A-133 requirements.

The City has not advised the administrative entities that they become subrecipients upon execution of an agreement in which the administrative entity agrees to administer the program. In addition, the City has not performed any subrecipient monitoring procedures as required under OMB Circular A-133 in relation to the administrative entity.

City of Eddyville

Schedule of Findings and Questioned Costs

Year Ended June 30, 2012

Recommendation – The City should develop and implement policies and procedures to ensure the administrative entity is aware of the subrecipient relationship created when they enter into a subrecipient agreement to administer the program. In addition, the City should implement procedures to ensure that all subrecipients are monitored as required by OMB Circular A-133.

Response and Corrective Action Planned – We will contact the Iowa Department of Economic Development for guidance in relation to this.

Conclusion – Response accepted.

CFDA Number 14.228: Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii

Pass-through Agency Number: 08-DRI-285

Federal Award Year: 2008

U.S. Department of Housing and Urban Development

Passed through the Iowa Economic Development Authority

III-D-12 Cash Management – Our review noted that in some cases the invoices were not paid within 10 days of receipt of the Community Development Block Grant (CDBG) funds, as required by the CDBG agreement.

Recommendation – To ensure compliance with federal requirements, the City should implement procedures to ensure all invoices are paid at the time of receipt of the CDBG funds.

Response and Corrective Action Planned – The invoices in question were an oversight. However, this will be corrected in the future.

Conclusion – Response accepted.

III-E-12 Contractor Issues – We noted the construction contractors did not timely complete the projects as required by the contracts. The original contracts included a \$500 per day liquidated damage assessment for projects not completed by the contract completion date. For those projects in which the contract completion date was not met, we noted that the City did not assess the liquidated damages, not did the City enter into contract change orders extending the time of completion of the projects.

There was no contract change orders for differences between quantity of materials included in the bid and the actual quantity of materials used on the projects.

Recommendation – The City implement procedures to either assess liquidated damages on contractors who do not met the contract completion dates, or enter into contract change orders extending the completion date of the projects.

In addition, the City should enter into contract change orders for the difference in quantity between the original bid and the actual quantity of materials used on the projects.

Response and Corrective Action Planned – All these contracts in question are now complete; however, we will implement these recommendation in the future.

Conclusion – Response accepted.

City of Eddyville

Schedule of Findings and Questioned Costs

Year Ended June 30, 2012

CFDA Number 97.036: Disaster Grants – Public Assistance (Presidentially Declared Disasters)

Pass-through Agency Number: FEMA-1930-DRIA

Federal Award Year: 2010

U.S. Department of Homeland Security

**Passed through the Iowa Department of Public Defense – Iowa Homeland Security and
Emergency Management Division**

III-F-12 Construction Project – The City did not hire an engineer to prepare plans and specifications for a street construction project, as required by Chapter 26 of the Code of Iowa. In addition, the City did not require the contractor to provide a performance and payment bond, as required by Chapter 26 of the Code of Iowa.

Recommendation – The City implement procedures to ensure compliance with Chapter 26 of the Code of Iowa in relation to construction projects.

Response and Corrective Action Planned – The project in question is now complete; however, we will implement this recommendation in the future.

Conclusion – Response accepted.

CFDA Number 97.036: Disaster Grants – Public Assistance (Presidentially Declared Disasters)

Pass-through Agency Number: FEMA-1763-DRIA

Federal Award Year: 2008

U.S. Department of Homeland Security

**Passed through the Iowa Department of Public Defense – Iowa Homeland Security and
Emergency Management Division**

III-G-12 Contractor Issues – We noted the construction contractor did not timely complete the project as required by the contract. The original contract included a \$500 per day liquidated damage assessment for projects not completed by the contract completion date. For the project in question, in which the contract completion date was not met, we noted that the City did not assess the liquidated damages, nor did the City enter into a contract change order extending the time of completion of the project.

Recommendation – The City implement procedures to either assess liquidated damages on contractors who do not meet the contract completion date, or enter into a contract change order extending the completion date of the project.

Response and Corrective Action Planned – The contract in question is now complete; however, we will implement this recommendation in the future.

Conclusion – Response accepted.

III-H-12 Cash Management – In accordance with the State of Iowa Public Assistance Plan, the City may request an advance of federal funds on large FEMA projects, provided the funds are expended within 60 days of receipt. The City requested and received advances totaling \$419,674 for its large FEMA project. The City held several thousand dollars of these funds for up to nine months prior to expending these funds.

Recommendation – The City should implement procedures to ensure FEMA funds received in advance are expended within 60 days. The City should contact the Iowa Homeland Security and Emergency Management Division to determine disposition of this matter.

City of Eddyville

Schedule of Findings and Questioned Costs

Year Ended June 30, 2012

Response and Corrective Action Planned – The City will implement procedures to ensure FEMA advances are expended within 60 days.

Conclusion – Response accepted.

City of Eddyville
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

Part IV: Other Findings Related to Required Statutory Reporting:

- IV-A-12 Certified Budget – Disbursements during the year ended June 30, 2012 did not exceed the amounts budgeted.
- IV-B-12 Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- IV-C-12 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- IV-D-12 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Dwight Lobberecht, Council Member Owner of Riverside Auto	Maintenance supplies	\$1,021
Dwight Lobberecht, Council Member Spouse owns Tri-County Inc.	Construction	\$845,448

In accordance with Chapter 362 of the Code of Iowa, the above transactions with Riverside Auto do not appear to represent a conflict of interest since the total transactions were less than \$2,500 during the fiscal year.

For the transactions with Tri-County, Inc., \$14,126 of the total paid of \$845,448 were not bid. As a result, this may represent a conflict of interest pursuant to Chapter 362 of the Code of Iowa.

Recommendation – The City consult with their Attorney on the above to determine a proper resolution of the matter.

Response – We will review this with our Attorney.

Conclusion – Response accepted.

- IV-E-12 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- IV-F-12 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

City of Eddyville

Schedule of Findings and Questioned Costs

Year Ended June 30, 2012

- IV-G-12 Deposits and Investments – Except as noted below, no instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.

The City Library has invested in annuities. This type of investment does not appear to be in compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City Library's investment policy.

The maximum amount which may be kept on deposit in each depository was exceeded at times during the fiscal year. As a result, the City is not in compliance with Chapter 12C.2 of the Code of Iowa.

The Debt Service Fund does not receive bank interest, even though this is required by Chapter 12C.9 of the Code of Iowa.

Recommendation – To ensure compliance with Chapter 12C of the Code of Iowa, the City Library and the City should implement procedures to ensure all investments are allowable according to the Code of Iowa, and that the maximum amount which may be kept on deposit at the bank exceeds the cash in bank amount at all times. In addition, the Debt Service Fund should receive bank interest, as required by the Code of Iowa.

Response – In regards to the Library investment, the annuity was given to us, and we can't cash this at this time. We feel it is important to honor the wishes of the donor in relation to the annuity. The City will also implement the other recommendations.

Conclusion – Response accepted.

- IV-H-12 Tax Levy - The City levies a separate property tax levy for liability/property insurance, pursuant to Chapter 384.12 of the Code of Iowa. However, it appears the City has levied too much in property taxes for liability/property insurance given the cost of liability/property insurance. The total property tax amount levied in excess of the amount spent on liability/property insurance was in excess of \$5,000. This Code Section only allows the City to levy an amount necessary to fund the costs of liability/property insurance. As a result, it would appear that the City is not allowed to levy excess property taxes under the liability/property insurance Code Section in order to fund the general operations of the City.

Recommendation – The City review these Code Sections to ensure compliance with the Code of Iowa requirements. In addition, the City needs to consult with legal counsel to determine an appropriate course of action in relation to the above issue.

Response – We will take this into account in the future.

Conclusion – Response accepted.

- IV-I-12 Utility Rates – Section 384.83 and 384.84 of the Code of Iowa requires that utility rates must be established by ordinance of the City Council, published in the same manner as an ordinance. We noted that the utility rates currently charged by the City for residential garbage collections were not established by ordinance.

The utility rates for sewer service billed to the School are established pursuant to a formula, as documented in an ordinance. However, neither the School nor the City could determine the formula variables used in the determination of the actual amount billed to the School for sewer service.

City of Eddyville

Schedule of Findings and Questioned Costs

Year Ended June 30, 2012

Recommendation – The City follow the above Code sections on utility rate establishment. In addition, the City should retain documentation of how the sewer utility billing rate to the School was established.

Response – We will implement these recommendations.

Conclusion – Response accepted.

- IV-J-12 Code of Ordinances – The City last had its Code of Ordinances recodified in 2005. Chapter 380.8 of the Code of Iowa states, in part, “At least once every five years, a city shall compile a code of ordinances containing all of the city ordinances in effect, except grade ordinances, bond ordinances, zoning ordinances and ordinances vacating streets and alleys.”

Recommendation – The City should ensure the Code of Ordinances is recodified as required.

Response – We will implement this recommendation.

Conclusion – Response accepted.

- IV-K-12 Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and the back of each cancelled check. However, the City and Library did not consistently obtain an image of the front and/or back of each cancelled check as required.

Recommendation - The City and Library should obtain and retain an image of both the front and back of each cancelled check as required.

Response and Corrective Action Planned – We will implement this recommendation.

Conclusion – Response accepted.

- IV-L-12 Miscellaneous - For the City’s Community Development Block Grant program, it appears the City failed to claim reimbursement for over \$2,000 in costs in relation to this program. This was allowed to occur because the City does not reconcile the amounts recorded on the City’s accounting system with amounts recorded on the claim forms filed with the grantor.

The City budget amounts as approved by the City Council do not agree to the budget amounts as recorded on the monthly reports given to the City Council.

Recommendation – The City implement procedures to ensure all monies are received from federal grant programs, and that the budget amounts recorded on the reports given to the City Council agree to the budget amounts as originally approved by the City Council.

Response – In relation to the Community Development Block Grant program, we will file a claim to recover all costs incurred in relation to these grants. In addition, our monthly reports will be revised to ensure the budget amounts agree to the budget amounts originally passed by the City Council.

Conclusion – Response accepted. However, the City needs to implement procedures to ensure all monies due to the City are actually received by the City.

City of Eddyville

Schedule of Findings and Questioned Costs

Year Ended June 30, 2012

- IV-M-12 Excessive Balances – The balances at June 30, 2012 in the Special Revenue, Local Option Sales Tax Fund and the Enterprise, Sewer Fund are in excess of one years disbursements. As a result, the balances in these funds may be excessive.

Recommendation – The City analyze these funds, and determine if the balances in these funds are warranted. If warranted, the City should document how they intend to reduce the balances in these funds.

Response – For the funds in question, our plan is to use the balances in these funds for capital improvements which will take place in fiscal year 2013 and in later years.

Conclusion – Response accepted.

- IV-N-12 Separately Maintained Records – The Library maintains separate accounting records for its operations. This activity is not included in the City's computer system or in the City's accounting records or financial reports.

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, "A City shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose." For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included on the City's accounting records and be reported to the City Council on a monthly basis.

Response – We will take this under advisement.

Conclusion – Response accepted.

- IV-O-12 Reports – The City submits a street report, and a perpetual care cemetery report to the State of Iowa once a year. Our review noted that the financial amounts included on both of these reports were materially different than the financial amounts included on the City's accounting system. City personnel were not able to adequately explain these differences.

Recommendation – The City implement procedures to ensure the financial amounts included on reports to the State of Iowa reconcile to the financial amounts included on the City's accounting system.

Response – We will attempt to implement this recommendation.

Conclusion – Response accepted.

- IV-P-12 Construction Project – The City did not hire an engineer to prepare plans and specifications for a street construction project, as required by Chapter 26 of the Code of Iowa. In addition, the City did not require the contractor to provide a performance and payment bond, as required by Chapter 26 of the Code of Iowa.

The City did not obtain weight tickets from the contractor for tons of asphalt used on a construction project.

Recommendation – The City implement procedures to ensure compliance with Chapter 26 of the Code of Iowa in relation to construction projects. In addition, the City should ensure weight tickets are obtained for asphalt used on street construction projects.

City of Eddyville

Schedule of Findings and Questioned Costs

Year Ended June 30, 2012

Response – The project in question is now complete; however, we will implement this recommendation in the future.

Conclusion – Response accepted.

- IV-Q-12 Payroll - No City Council approval of meeting pay was located. One employee does not keep a timesheet, even though this employee might be subject to overtime pay if the employee works more than forty hours in a week.

The City policy is unclear as to when and how employees earn compensatory time. The current City policy indicates that compensatory time will be earned if the employee earns or works in excess of forty hours in a week; however, currently the City grants compensatory time to employees for all hours in excess of eight hours in a day.

The City policy does not appear to address minimum number of hours for call out work. Currently, City employees receive a minimum of two hours of pay if employees are called to work after normal working hours, even if the actual hours worked is less than two hours. However, this issue does not appear to be addressed in the City policy.

Recommendation – The City Council approve meeting pay, and that all employees who could be subject to overtime keep timesheets. In addition, the City policy should be updated to address when and how employees earn compensatory time, and minimum hours of pay when employees are called to work after normal working hours.

Response – We will review all these issues.

Conclusion – Response accepted.

City of Eddyville
Summary Schedule of Prior Federal Audit Findings
Year Ended June 30, 2012

<u>Comment Reference</u>	<u>Comment Title</u>	<u>Status</u>	<u>If not corrected, planned corrective action or other explanation</u>
III-A-11	Segregation of Duties	Not implemented	Plan to segregate duties to the extent feasible in the future.
III-B-11	Electronic Check Retention	Not implemented	This recommendation has been implemented.
III-C-11	Subrecipient Monitoring	Not implemented	Plan to implement in the future.
III-D-11	Disbursement Approval	Corrective action taken	
III-E-11	Cash Management	Not implemented	This recommendation will be implemented in the future.
III-F-11	Housing Buy-Out Grant	Not implemented	We are waiting on guidance from the State of Iowa in relation to this issue.

City of Eddyville

Corrective Action Plan for Federal Audit Findings

Year Ended June 30, 2012

Comment Number	Comment Title	Corrective Action Plan	Contact Person, Title, Phone Number	Anticipated Date of Completion
III-A-12	Segregation of Duties	We will review this and take action as necessary.	Mickey Solano City Clerk (641) 969-4267	Immediately
III-B-12	Electronic Check Retention	We have requested the fronts and backs of the checks from the bank.	Mickey Solano City Clerk (641) 969-4267	Already implemented
III-C-12	Subrecipient Monitoring	This will be implemented on future contracts with subrecipients. We will also implement monitoring procedures of our subrecipients.	Mickey Solano City Clerk (641) 969-4267	Immediately
III-D-12	Cash Management	Invoices will be paid immediately upon receipt of the grant monies in the future.	Mickey Solano City Clerk (641) 969-4267	Immediately
III-E-12	Contractor Issues	We will implement this on future contracts	Mickey Solano City Clerk (641) 969-4267	Immediately
III-F-12	Construction Project	We will implement this on future contracts	Mickey Solano City Clerk (641) 969-4267	Immediately
III-G-12	Contractor Issues	We will implement this on future contracts	Mickey Solano City Clerk (641) 969-4267	Immediately
III-H-12	Cash Management	We will contact the State of Iowa to resolve this issue.	Mickey Solano City Clerk (641) 969-4267	Immediately